

## **REACHING HIGHER WITH AFFORDABILITY WORKING PAPER\***

April 10, 2008

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\*This working paper is a supplement to the Commission's *Reaching Higher: Strategic Directions for Higher Education in Indiana* adopted in June 2007. The working paper was prepared to elicit further discussion and define action items for moving forward with strategic directions on affordability.

## Reaching Higher with Affordability

### *Indiana's economic imperative*

For Indiana to be internationally competitive, its economy must evolve from a traditional rustbelt blue collar economy to an information age white collar economy. For individuals, this transformation means ever increasing levels of education. Finishing (or not finishing) high school and getting high paid jobs in manufacturing is part of Indiana's past. Individuals with a high school diploma (or even less) will be faced with significant challenges to earning a living that will support a family. The path to economic security and prosperity goes through college.

*"Indiana would have to grant an additional 10,000 college degrees a year to compete internationally."*

*National Center for Higher Education Management Systems*

### *Opportunity for all*

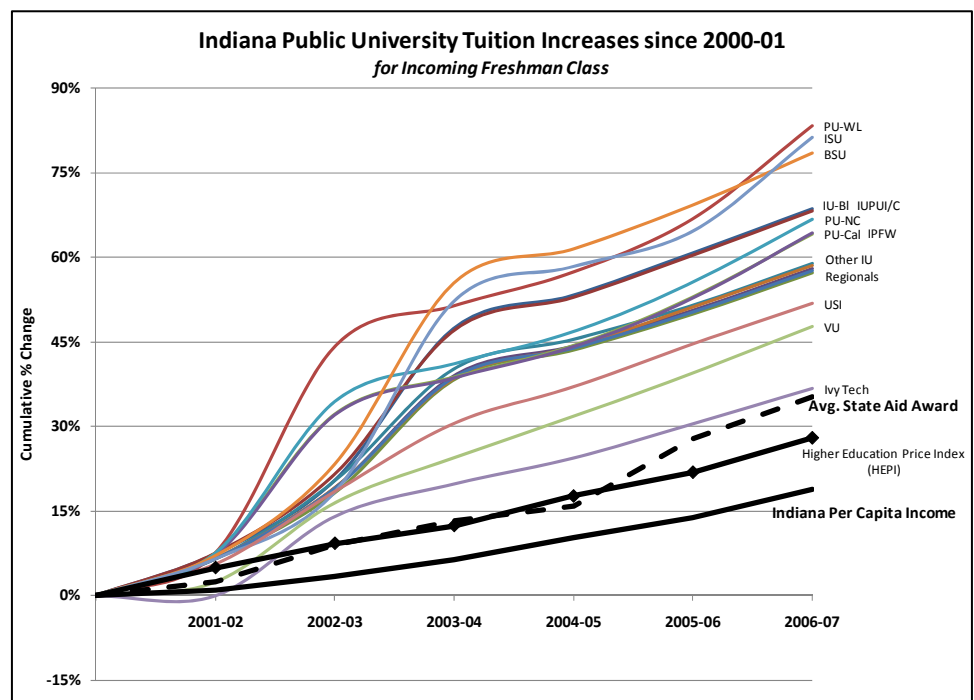
There is a growing economic divide between those individuals that have a college degree and those that do not (over a million dollars in lifetime earnings). Too often, children born into low-income families never make their way out of poverty. Nationally, seventy-seven percent of those students with family incomes in the upper 25% earn a bachelor's degree as compared to nine percent in the lowest 25% income quartile. Such challenges are especially daunting for African Americans. In fact, there are more young African American men in prisons than in college. Indiana spends about as much sending a student to college for a year as it does to house a prisoner in a jail.

*"This year alone, due to record-high financial barriers, nearly one-half of all college qualified, low- and moderate -income high school graduates- over 400,000 students fully prepared to attend a four year college will be unable to do so, and 170,000 of these will attend no college at all." (Represents national data.)*

*Empty Promises, Advisory Committee on Student Financial assistance, June 2002*

### *Tuition is rising faster than family income*

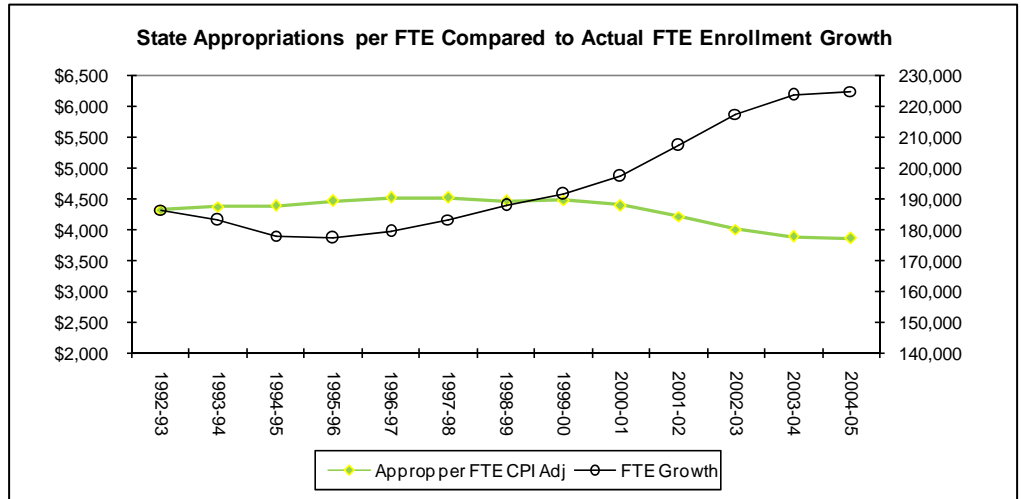
The price of college has continued to rise at twice the rate of inflation. Growing at about 7% a year, tuition doubles every ten years. Increases in college tuition have exceeded increases in most other costs including energy, healthcare, and pharmaceutical drugs.



### ***Why is tuition rising at twice the rate of inflation?***

Three primary factors contribute to this consistent increase in tuition:

- 1) Costs are constant: Higher Education is largely a human capital enterprise. Faculty and staff account for almost 80% of the general fund budget. To maintain and improve quality, colleges have had to be wage competitive and expenditures have grown accordingly.
- 2) Demand is up: Over the past six years, Indiana added over 65,000 students (primarily at the community college) and the state has struggled to keep up with funding this increase.
- 3) State appropriations have not kept pace: As states have assumed growing responsibilities in new areas such in social services and healthcare, the share allocated to higher education has decreased.



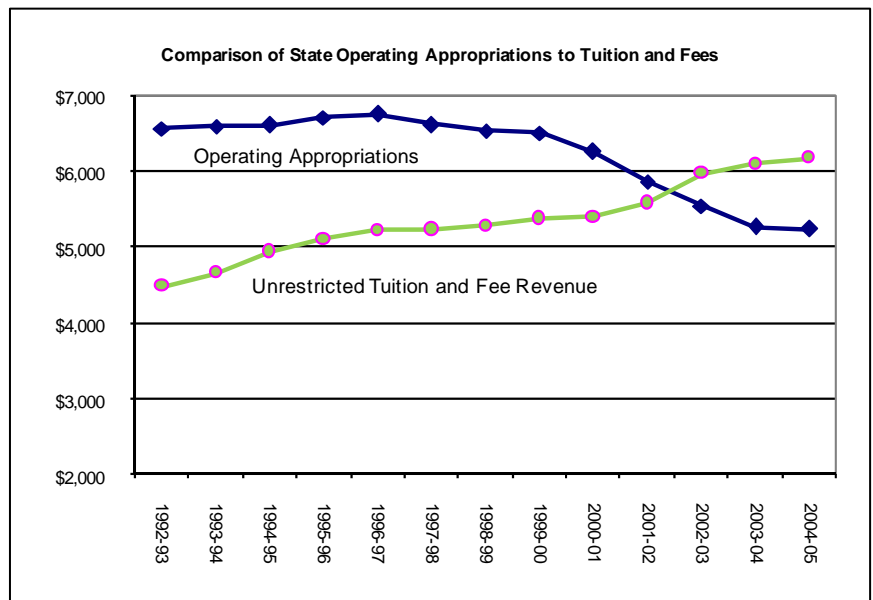
### ***The cost of college has shifted to the student***

Public higher education has been a shared responsibility between the state and students. When the state appropriation cannot keep pace, the burden shifts to student tuition. In the 1970's students paid about 1/3 of the cost and the state paid 2/3. In 1995, students paid 40% of the cost, and ten years later in 2005, they paid 50% of the cost.

### ***How are students responding to rising tuition?***

Hoosier students continue to participate in higher education in greater numbers despite the increasing cost of college.

Today 66% of the high school graduating class will go to college immediately following high school graduation and 75% will attend within two years. Ivy Tech Community College has grown 75% since 1999, adding over 30,000 students.

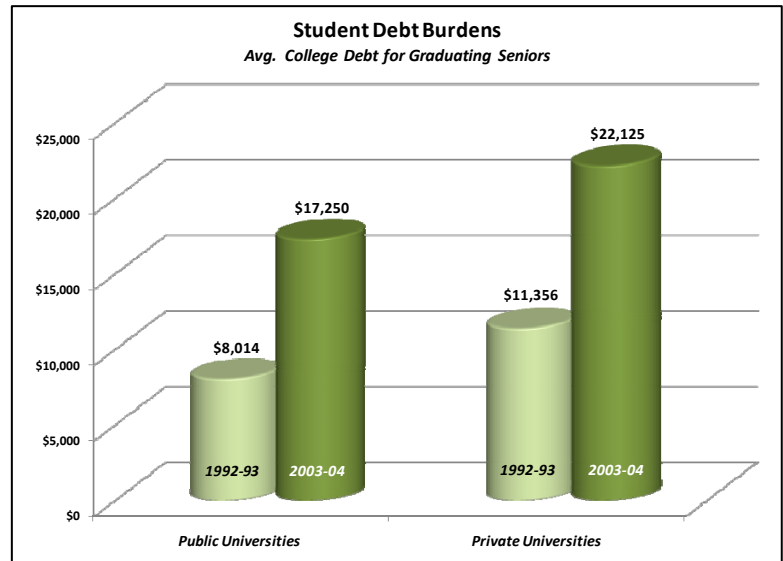


*More students are borrowing and borrowing more money to attend*

For the most part, such increased participation has been possible through the availability of educational loans. Traditionally a student's ability to pay was made possible through relatively low tuition rates as two-thirds of college costs were subsidized by the state. Today, the average debt load for a student graduating from a four-year college is \$17,250.

*Two thirds of all students borrow money and total borrowing has tripled in the past decade.*

*Poor students are more likely to borrow. Eighty-eight percent of Pell students borrow as compared to 52% of all undergraduate students.*



An unfortunate consequence of student debt relates to those students who borrow and then drop out of college. These students are left in the position of bearing a greater financial burden without enhanced skills to increase their earning potential – and little chance of returning to higher education. In fact, students leaving college without a degree are ten times more likely to default on their student loans. Many students find themselves needing more than the federal Stafford annual limits allow. This has led to a dramatic increase in parent loans as well as private (non guaranteed loans).

*Students also are working more than ever before*

Eighty percent of all students work and they work on the average 30 hours per week (independent students 35 hrs/week, dependant students 25 hrs/week; and 23% of full-time students work 35 or more hours per week compared to 53.3% of part-time students). While there is evidence that some work (less than 10 hours per week) does not harm a student's academic success, evidence also suggests that students working more than 15 hours per week do not perform as well academically as others.

*Is student financial aid filling the gap?*

Family Income	Pell Grant (Federal)	O'Bannon Grant (State)
\$30,000	\$4,300	100%
\$40,000	\$2,150	50%
\$50,000	\$ 0	0%

*Note: For comparison purposes, families cited in the above chart are assumed to be families of four with one child in college and with non household assets less than \$50,000 and attending a public college. (Attachment A provides additional information on available institutional aid.)*

*Why is college affordability important?*

Attaining a college degree has a profound impact on socio-economic mobility in the US. Children born into poverty (the lowest income quintile) who earned a college degree versus similarly situated children who did not attain this credential reveals this striking difference. For those with a degree, they are nearly as likely to occupy a position in any one of the three higher income quintiles as adults. For those without a degree, they tend to remain mired in the lower income quintiles.

## ***Affordability Recommendations***

### **1. Addressing the need for a better informed public on the subject of availability of financial aid**

*“69% of 11<sup>th</sup> graders, from non-college families, do not think they can afford to go to college”*

At Indiana’s public universities alone, the total grant aid provided to students from federal, state, private, and institutional sources was nearly \$635,000,000 in 2005-06. This was nearly \$4,500 per grant aid recipient.

A **“College Day”** should be established to provide college and financial aid information to every student at every high school in the state with hands-on assistance in completing financial aid forms and completion of a college application required for all seniors – with application to the community college set as a default for those students that have not identified a college preference. Participation should be required.

Expand the **21<sup>st</sup> Century Scholars’** enrollment program. Students who are eligible for free and reduced lunch may sign up the 6<sup>th</sup>, 7<sup>th</sup> or 8<sup>th</sup> grade. In spite of the state’s best efforts, less than ½ of those eligible sign up. The Lumina Foundation is promoting a “Know How to Go” campaign with the Commission and other partners to sign-up more eligible students. Since this low-income population is the most challenging in regards to increasing college-going rates, the program deserves heightened attention and renewed focus in further penetrating the market of eligible students.

As means of demonstrating success and highlighting areas for improvement, each college and university should develop and submit to the Commission **annual institutional reports** that track the enrollment, retention, and completion rates of low income students, particularly for those students receiving financial aid. This tracking also should highlight specific campus programs and student support services that have been implemented to serve these students.

### **2. Ensuring that Indiana’s March 10<sup>th</sup> deadline for financial aid is not a barrier**

Students must apply for state financial aid by March 10<sup>th</sup> of the preceding academic year. For many students, this deadline does not present a problem. In fact, for some students, this early notification assists them in making their college choices and fall enrollment plans. For other students, especially late deciders, missing the fall deadline means they have missed the opportunity for state aid until the following March 10<sup>th</sup>. To ensure there is enough money for students and to notify them in a timely way, the state has historically used a March 10<sup>th</sup> deadline. The deadline substantially affects Ivy Tech students, the majority of whom apply well past the deadline. Only one-third of Ivy Tech students who meet the March 10<sup>th</sup> deadline actually use the grant the following school year.

A **separate Ivy Tech Community College financial aid program** should be established that is separate from the traditional state aid program. The Ivy Tech program would allow students to apply anytime and be awarded on a first-come, first-served basis. It may take several award cycles to determine the funds necessary for this program. As an additional benefit, the remaining pool of traditional students in the state program would be more predictable and allow for better financial aid estimates.

### **3. Simplifying Indiana's state financial aid program**

The federal student aid program is a complicated process with at least 12 factors used in making a decision on the amount of financial aid a student will receive. In the dispensing of state aid, Indiana has used essentially the same criteria. This process makes it difficult to communicate to students and families on the amount of aid they qualify for and can expect to receive. Some students do not apply because they do not think they would qualify. Indiana cannot change the federal financial aid formula. Indiana can change its own formula. Indiana could limit the factors for determination to only include family income and family size. Such factors could be easily communicated through a simple chart or formula. Generally dependant students with family incomes of \$25,000 or less would qualify for a full tuition grant. Those whose incomes are between \$25,000 and \$50,000 would qualify for a partial grant on a sliding scale. These factors would apply for all students whose non-residential assets are less than \$50,000.

### **4. Ensuring affordable opportunities for the middle income student**

This proposal recognizes that traditional need-based financial aid programs were designed to serve low-income students. As the cost of college continues to increase, more students are working and taking out educational loans. The median family income for a family of four in Indiana is about \$66,000. Several alternatives could be explored such as:

- A) Expanding the 21<sup>st</sup> Century Scholars program. The current program requires students to qualify for the free or reduced lunch program, which is approximately \$38,000 for a family of four today. This could be expanded to 150 % of the free and reduced lunch guidelines, which would be approximately \$57,000 for a family of four.
- B) Modifying the SSACI formula to provide assistance on a sliding scale up to perhaps \$55,000 for a family of four.
- C) Providing the first two years of college free to families with incomes less than a given amount (\$55,000).
- D) Providing the first two years of education for free at a community college or perhaps a regional campus.

### **5. Encouraging Indiana's colleges and universities to add to and remodel their own institutional aid programs to ensure opportunities are available for students from low income families**

This proposal envisions that the universities and colleges would design **need-based financial aid programs that "wrap around" and leverage state and federal resources**. The best example of this is Indiana University – Bloomington's 21<sup>st</sup> Century Covenant program. This program wraps around the 21<sup>st</sup> Century Scholars program and pays for books, room, and board after federal and state resources are applied. IUPUI has also adopted a program for 21<sup>st</sup> Century Scholars whereby they provide an additional \$2,500 stipend to defray costs of books and other expenses. This could be accomplished by colleges reallocating the financial aid they currently offer and/or devoting a part of their fundraising campaigns to this effort. The Commission recognizes that there are similar programs on Indiana's other colleges and universities that have been or are being developed such as Purdue University's recently announced Promise Program for 21<sup>st</sup> Century Scholars. The scope and size of the program design may vary need from campus to campus due to differences in mission and/or financial capacity to provide institutional aid.

## 6. Expanding and redefining state financial aid for part-time students

*Most part time students are ineligible for state, federal or institutional aid.*

As the number of working adults returning to college to complete a degree or enrolling for the first time has risen, the demand for college aid by part-time students has grown accordingly. In the mid-1990s, the Indiana General Assembly authorized small Part-time Student Grant program. The level of funding – approximately \$5 million annually – has not changed appreciably since its inception, despite the rise in non-traditional students.

As initially conceived, this grant program targeted part-time students that had already made significant progress toward a degree. The hope was that a small additional state investment in these students might reap significant gains in degree completion. Over time, the General Assembly expanded eligibility for these awards, thus removing both the degree completion and working adult focus. **The Part-Time Grant Program should be expanded** to reflect the rising demand. Additionally, eligibility should be reset to target working adult students (over age 25) and restore a focus on degree completion. A preference should be given to students in transitional employment. The grant money could be restricted to Ivy Tech and maybe the regional campuses where there are overwhelming numbers of part-time students. Additionally, Ivy Tech and the regional campuses ought to seek out employers who offer tuition assistance programs.

## 7. Creating a national model for public participation in the setting of tuition rates in Indiana's colleges and universities

One of the current challenges often cited by national experts (Lumina) is the lack of coordination and communication between the legislators who make state appropriations and the colleges and universities who set tuition. Indiana is pursuing a process to improve communication between decision makers. In 2004, by state law a process was established that provides for public hearings and notice when setting tuition. The law further provided that tuition would be set two years at a time to coincide with state appropriations. In 2006, Indiana took a further step. State law requires the Commission for Higher Education to set **tuition targets** as non-binding guidelines for the institutions. To exceed the guidelines, the institution is required to have a review (not approval) by the State Budget Committee.

## Other important considerations

**The Community College** -Ivy Tech Community College of Indiana has to be considered as a critical part of the financial aid puzzle. By far, it serves the largest number of first generation, low income, part-time and/or minority students. These are the students most affected by the price of college. The Commission's Ivy Tech Community College of Indiana draft working paper recommends pursuing a low cost option for recent high school graduates willing and able to participate in an accelerated degree program.

**Time to Degree** – The longer a student takes to complete their degree, the more it costs. This is particularly true for students enrolled at campuses with a flat tuition rate, as opposed to a credit hour tuition pricing regime. While many of the factors impacting on-time degree completion are personal and unique to the student, our public universities must be mindful of the barriers they may erect (i.e., scheduling limitations, overly rigid course requirements, limited course delivery options).

**Credit Transferability** – This issue is closely tied to time to degree. When students transfer and their credits do not, this slows their progress toward a degree and it creates an immediate financial loss for the student.

**Core 40 and Academic Honors** – The current state grants provide that all qualified students get an 80% grant; Core 40 students get a 90% grant; and Academic Honors %100. This is similar to the new federal Smart Grants (\$1500) awarded to Pell college freshman and sophomores students completing a college prep curriculum (Core 40) in high school. Academic preparation for college is a significant factor in predicting success in college.

**21<sup>st</sup> Century Scholars program** – In addition to the financial support, Indiana has built additional support for students in high school thru state dollars and effective use of federal Gear Up grants. 21<sup>st</sup> Century students are more likely to graduate from high school, complete Core 40 and attend college at higher rates not only than other poor students but at higher rates than all students.

**Fiscal Impact** – Certainly the fiscal impact, on State government, the university, or both is a serious consideration when crafting a plan to reduce the cost of attendance at our public universities. Internal staff work continues on estimating the costs these proposals, but cannot be completed until the specific recommendations are finalized.

### **Basic Elements of Financial Aid**

FAFSA – is the federal financial aid form that all students must complete in order to qualify for federal aid, state aid or a federal guaranteed loan.

Stafford Loans - federal guaranteed loans that carry lower interest rates and payments are deferred until after graduation.

Federal Pell Grant – a full time student demonstrating financial need, may apply anytime and the grant may be as high as \$4300 for a full time student. A student carrying six hours may qualify and the grant is prorated. In Indiana, about 70,000 students attending public universities receive approximately \$160 million annually in Pell Grant aid.

O'Bannon Grant – a full time student demonstrating financial need, who applies by March 10<sup>th</sup> of the preceding year and the grant may be for tuition up to the state public college cap of \$7,000.

Freedom of Choice Grant – provides an additional grant for students attending independent colleges up to the independent college cap of \$11,000.

21<sup>st</sup> Century Scholar – provides a full tuition grant for students enrolling in 6<sup>th</sup>, 7<sup>th</sup> or 8<sup>th</sup> grade and qualifies for the federal free or reduced lunch program. The student must graduate from high school apply to college and complete Core 40 and not use drugs or alcohol.

Institutional aid -University and college aid awarded by the college or university to merit or financially needy students based upon the institutions criteria. The aid addressed in this paper comes from state appropriations or student tuition. Independent colleges and some universities raise a considerable amount of private funds for financial aid.



## Attachment A Supporting Charts

